Alternatives to Financing Generation: What’s in Your Wallet?

A presentation to the APPA

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Overview

• Trends in Risks and Capital Costs for Generation

• Alternative Forms of Generation Ownership
  – Risks & benefits

• Alternatives to Generation Ownership
  – Risks & benefits
Examples:

- Cost of raw materials
- Availability and costs of construction labor
- Permitting uncertainties and costs
- Interest rate and other financial risks
Busbar Cost of Energy - $/MWH
85% Capacity Factor, future dollars

Example

- **Capital**
- **Variable O&M**
- **Fixed O&M**
- **Fuel**

Energy Sources:
- **Nuclear**
- **GT**
- **CC**
- **PC**
- **PC with CO2**
- **IGCC**
- **IGCC with CO2**
Option 1: Joint Ownership
Ownership as Tenants in Common

Financing
- CPS & Partner finance construction costs
- CPS able to take advantage of tax-exempt financing for its share or vendor financing, if available
- Partner, if Public Power, similarly situated
- Taxable Partner situated to take advantage of vendor financing

Debt on balance sheet for both entities.

Ownership
- Both CPS and Partner each hold desired share, e.g., 50%
- Equal governing rights; undivided interest
Characteristics of IUO Generation Partner

• Corporate Structure
  – Holding company
    • GenCo assets held apart from the “mothership”
    • Assets held in LLCs or LLPs

• Financing
  – Used to be on balance sheet
  – Now, off balance sheet – project financed
  – PPAs used as basis for project financing
  – Project risks carried by financing entities and PPA purchaser
Option 2: Partner Owns 100%

**Financing**
- Partner finances all or a part of CPS Energy’s capital costs with PPA revenue guaranties as security

**Risks**
- Generation plan relies on PPA

**Ownership**
- Partner holds 100% undivided interest

**PPA**
- CPS and other third-party purchasers buy power
- Take and Pay

**Benefits**
- Partner has construction and operating risk, but able to finance
- CPS capital outlay avoided
- Customer payment via FAC instead of rate increase
- Taxpayer Partner receives all depreciation & other tax benefits
Option 3:
Ownership of CPS interest by Special Purpose Entity as Tenants in Common with Partner

Financing
-CPS “LLC” issues tax-exempt debt financing for its share or vendor financing, if available

Ownership
-Both CPS and Partner each hold desired share, rights, interest
-CPS Energy’s interest held in entity that assumes risks of construction and operation separate from CPS

Benefits
- Risks taken off balance sheet; or are they?
- Tax benefits flow to taxable Partner in proportion to ownership share

Risks
- PPA under take-and-pay to get debt financed at CPS’ rates
- Operational risk passed back thru PPA
- Alternatives raise financing costs

Generation Partner: NMD Energy
Option 4:
Ownership of Interest by Special Purpose Entity; PPAs with Public Power Partners

- “Public LLC” issues no debt
- Public entities issue tax-exempt debt to pre-fund PPA obligations
- Must have PFC pre-pay obligations-

Ownership
- Only LLC holds asset share, rights, interest that assumes risks of construction and operation

Financing
- Bank
- Pre-Paid PPA Bond
- Debt Financing
- Take-and-Pay PPA

Pre-fund PPA; Receive Power

Benefits
- Risks taken off balance sheet, or are they?
- PPA costs recovered thru FAC
- Pre-paid PPA cost of capital rates reflected in PPA rate

Risks
- PPA under take-and-pay to get debt financed at PPA payor’s rates
- Operational risk passed back thru PPA
- Alternatives raise financing costs
Ownership of Interest by Special Purpose Entity; PPAs with Public Power Partners

Financing
- “Public LLC” issues no debt
- Public entities issue tax-exempt debt to pre-fund PPA obligations
- Must have PFC pre-pay obligations

Benefits
- Risks taken off balance sheet
- PPA costs recovered thru FAC
- Pre-paid PPA cost of capital rates reflected in PPA rate

Ownership
- Only LLC holds asset share, rights, interest that assumes risks of construction and operation

Risks
- PPA under take-and-pay will allow financing at PPA buyer’s rates
- Operational risk passed back thru PPA; reduced by take-or-pay relationship

Pre-Paid PPA Bond Debt Financing
Pre-fund PPA; Receive Power
Public LLC
100%
Undivided Interest
Option 6: Ownership of Interest by One PP Entity; PPAs with Public Power Partners

- “Public LLC” issues no debt
- Public entities issue tax-exempt debt to pre-fund PPA obligations
- Must have PFC pre-pay obligations

Benefits
- Risks taken off balance sheet for downstream participants
- PPA costs recovered thru FAC
- Pre-paid PPA cost of capital rates reflected in PPA rate
- Operational risk and upside assumed by single public power partner

Risks
- PPA under take-and-pay to get debt financed at highest rated entity’s rates
- Oversight delegated to one entity
Summary

• With the increase cost and risk of new generation development, the key to building new generation is financing
  – Evaluate all of your alternatives
  – Don’t present to a jointly-held project a larger risk profile to your stakeholders than your partner(s)

What’s Really in Your Wallet?
Questions?